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NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

(Amounts expressed in thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BACKGROUND AND HISTORY OF GOVERNMENTAL UNIT

General Operations

The District of Columbia (District) was created on March 30, 1791 and became the Nation's capital on December 1, 1800, in accordance with Article 1, section 8, clause 17 of the United States Constitution. This portion of the Constitution empowered Congress to establish the seat of government for the United States. On January 2, 1975, Congress granted the District a Home Rule Charter, which became effective through the enactment of the District of Columbia Self-Government and Governmental Reorganization Act, Public Law 93-198.

The District is a municipal corporation, which operates under an elected Mayor-Council form of government. Accordingly, an Act of the Council, other than a budget request act, becomes a law unless Congress and the President disapprove it after it has been adopted. Citizens of the District have the right to vote for the President and Vice-President of the United States but not for members of Congress. The District does, however, have an elected nonvoting delegate to the United States House of Representatives.

Due to its unique organizational structure (i.e., not a part of any other state government), the District provides a broad range of services to its residents, including those normally provided by a state. These services include public safety and protection, fire and emergency medical services, human support and welfare services, public education and many others.

B. FINANCIAL REPORTING ENTITY

A financial reporting entity consists of a primary government and its component units. The primary government is the District of Columbia, including all of the organizations that make up its legal entity. Criteria to be considered in determining organizations to be included as component units within the District's reporting entity are as follows:

- The District holds the corporate powers of the organization.

- The District appoints a voting majority of the organization's board.
- The District is able to impose its will on the organization.
- The organization has the potential to impose a financial burden on, or provide financial benefit to the District.
- The organization is fiscally dependent on the District.
- It would be misleading to exclude the organization from the District's financial statements.

Based on the aforementioned criteria, the District's financial statements include five discretely presented component units: Water and Sewer Authority, Washington Convention Center, Sports and Entertainment Commission, Housing Finance Agency, and the University of the District of Columbia. These organizations are presented in a separate column to emphasize that they are legally separate from the District.

The Mayor, with the consent of the Council, and other District officials appoint the governing bodies of all component units. The District has an obligation to provide financial support to the Housing Finance Agency and the University of the District of Columbia. In addition, the District must approve certain transactions of the Convention Center and the Sports and Entertainment Commission, and certain tax revenues are dedicated to these organizations. The Water and Sewer Authority is responsible for the payment of certain District long-term debt issued before that entity's creation to finance capital improvements for its predecessor agency. For that reason, in conjunction with the fact that the Water and Sewer Authority is an independent authority under its enabling legislation, this entity is included as a component unit of the District of Columbia. Information on how to obtain a complete set of financial statements for each entity can be obtained at the following locations:

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Washington Convention Center Authority
General Manager
801 Mount Vernon Place, N.W.
Washington, D. C. 20001

Housing Finance Agency
Executive Director
815 Florida Avenue, N.W.
Washington, D. C. 20001

Sports and Entertainment Commission
General Manager
2001 East Capitol Street, S.E.
Washington, D. C. 20003

University of the District of Columbia
President
Van Ness Campus
4200 Connecticut Avenue, N.W.
Washington, D. C. 20008

Water and Sewer Authority
General Manager
5000 Overlook Avenue, S.W.
Washington, D. C. 20032

The District established the District of Columbia Tobacco Settlement Financing Corporation (the "Tobacco Corporation") as a special purpose, independent instrumentality of the District government. The Tobacco Corporation is a blended component unit because it provides services exclusively to the District, and the District appoints all members of the governing body of the Corporation. The members have the ability to modify or approve the budget of the organization, appoint, hire, reassign, or dismiss those persons responsible for the day-to-day operations (management) of the organization, and thus is able to impose its will. Separate audited financial statements for the Tobacco Corporation are available from the Office of the Chief Financial Officer, 1350 Pennsylvania Avenue, N.W. Suite 209, Washington, D.C. 20004.

C. RELATED ORGANIZATIONS

A related organization is one for which the primary government is accountable but not *financially accountable*. The District of Columbia Housing Authority, the National Capital Revitalization Corporation, and the District of Columbia Courts are related organizations because the District is not financially accountable for them despite the fact the Mayor appoints a voting majority of their governing boards, except the Courts. The District does not appoint the members of the Joint Committee on Judicial Administration.

D. JOINT VENTURE

The District is a participant with other local jurisdictions in a joint venture to plan, construct, finance and operate a public transit system serving the Metropolitan Washington Area Transit Zone, which includes the

District of Columbia; the cities of Alexandria, Falls Church, Fairfax, Manassas and Manassas Park and the counties of Arlington, Fairfax, Loudoun and Prince William in Virginia and Montgomery, Anne Arundel and Prince George's in Maryland. The Washington Metropolitan Area Transit Authority (WMATA) was created in February 1967 for that purpose. WMATA is governed by a six member Board and six alternates, composed of two Directors and two alternates each from Maryland, Virginia and the District of Columbia. The Directors and alternates for Virginia are appointed by the Northern Virginia Transportation Commission from among its members; for the District of Columbia, by the Council from its members and mayoral nominees; and for Maryland, by the Washington Suburban Transit Commission from among its members. Further information regarding this joint venture is discussed in Note 10.

E. BASIS OF PRESENTATION

Government-Wide Financial Statements – The government-wide financial statements report information on all of the non-fiduciary activities of the Primary Government and its component units. Since by definition, assets of fiduciary funds are being held for the benefit of a third party and cannot be used to address activities or obligations of the District, these funds are not incorporated into the government-wide statements. Governmental activities of the Primary Government, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The following two statements are included in the government-wide statements:

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- *Statement of Net Assets* – The Statement of Net Assets displays the financial position of the District (governmental and business-type activities) and its discretely presented component units. The District reports all capital assets, including infrastructure, in the government-wide Statement of Net Assets. The net assets of a government is broken down into these three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.
- *Statement of Activities* – The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include fines and forfeitures, charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The District reports depreciation expense, the cost of “using up” capital assets in the Statement of Activities.

Fund Financial Statements – Fund accounting is used to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities. Each fund is considered to be a separate accounting entity and the transactions in each are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, revenues and expenses/expenditures.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental Funds are used to account for all of the District's general activities. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in the Proprietary Funds and the discretely presented component units) are accounted for in the Governmental Funds. The District reports the following major governmental funds:

- *General Fund*, used to account for all financial resources not accounted for in other funds.
 - *Federal and Private Resources Fund*, used to account for proceeds of intergovernmental grants and other federal payments and private grants that are legally restricted to expenditure for specified purposes.
 - *General Capital Improvements Fund*, used to account for the purchase or construction of capital assets financed by operating transfers, capital grants or debt.
 - *Non-Major Governmental Funds* includes two Special Revenue Funds: (1) Tax Increment Financing (TIF) Program Fund and (2) Tobacco Settlement Financing Corporation (TSFC) Fund; and one Capital Projects Fund: Highway Trust Fund.
- Proprietary Funds** are used to account for activities similar to those found in the private sector where the costs (including depreciation) of providing goods or services primarily or solely to the public on a continuing basis are, or could be, financed or recovered primarily through user charges, and the determination of net income is necessary or useful to sound financial administration. The District has two major proprietary funds, which are discussed below:
- *Lottery and Games Fund* - Used to account for revenues from lotteries and daily numbers games operated by the District and from licenses to conduct bingo games and raffles, and related prizes, expenses and capital outlays. Gaming activities are administered by a Lottery and Charitable Games Control Board consisting of five members appointed by the Mayor with the consent of the Council.
 - *Unemployment Compensation Fund* - Used to account for the accumulation of resources to be used for benefit payments to unemployed former employees of the District and federal government and of private employers in the District. Resources are contributed by private employers at rates fixed by law, and by the District and federal government on a reimbursable basis. The administrative costs of the program are accounted for in the General Fund.
 - *Non-Major Proprietary Fund* - Used to account for the operations of the Washington Center for Aging Services, the Washington Center for Aging Services Center Care, and JB Johnson Nursing Center
- Fiduciary Funds** are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations and other governments. The District reports Pension Trust Funds, Agency Funds and a Private Purpose Trust Fund.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- *Pension Trust Funds* are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical.
- *Private Purpose Trust Funds* are used to report any trust arrangement not reported in pension trust funds "under which principal and income benefit individuals, private organizations, or other governments." The District offers a tax-advantaged 529 College Savings Investment Plan (named after Section 529 of the Internal Revenue Code) The Plan is designed to help families save for the higher education expenses of designated beneficiaries and is available to DC residents as well as non-residents nationwide. The private-purpose trust funds are accounted for in the same manner as proprietary funds since capital maintenance is critical
- *Agency Funds* are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Fiduciary funds are not included in the government-wide financial statements since the resources cannot be used for operations of the government.

F. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Thus, the accounting and financial reporting treatment applied to a fund or activity is determined by its measurement focus.

Measurement Focus

All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, generally, only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The proprietary funds, pension and private purpose trust funds, discretely presented component units, and the government-wide financial statements are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities are included on the

statement of net assets. Net assets of the government-wide and proprietary funds are segregated into capital assets, net of related debt, restricted and unrestricted components. The related operating statements present increases (revenues) and decreases (expenses) in net assets. Operating statements of pension and private purpose trust funds present additions and deductions in fiduciary net assets.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). The District also has the option of following private-sector guidance issued after November 30, 1989 for its business-type activities and proprietary funds and component units. As allowed by GASB 20, the District has elected to follow only those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB), issued prior to December 1, 1989.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in-lieu-of taxes and other charges between the government's water and sewer component unit and various other functions of the government.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

Basis of Accounting

All governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (that is when they become both measurable and available.) "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property taxes are considered available if they are collected within 60 days after year-end. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. GASB Interpretation Number 6 (GASBI 6) requires that expenditures and liabilities such as debt service, compensated absences, claims and judgments, and special

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

termination benefits be recorded in the governmental fund statements only when they mature or become due for payment within the period. Such activity is recorded in the government-wide financial statements as incurred.

Those revenues susceptible to accrual are taxes, federal contributions and grants, charges for services and investment income. Property taxes are recognized as revenue in the tax year for which they are levied, provided they are available. Real property taxes are levied as of October 1 on property values assessed as of the preceding January 1. The tax levy is due and collectible in two equal installments on March 31 and September 15. On these dates, the bill becomes delinquent and the District may assess penalties and interest. Real property taxes attach as an enforceable lien on property as of October 1 of the year after levy. Sales and use taxes are recognized as revenue when the sales or uses take place. Interest on investments is recognized when earned. Charges for services are recorded as revenues as services are provided.

In the District, the personal property tax is self-assessed. The District requires a personal property tax return for the tax year beginning July 1 - June 30 each year to be filed on or before July 31 of that tax year. The return should report the remaining cost (current value) of all tangible personal property that has taxable sites in the District of Columbia as of July 1. The property taxes become levied once the returns are filed. However, the District does not have a legal claim to a provider's resources that is enforceable through the eventual seizure of the property until after July 31 if the taxpayer fails to pay the property tax when due. The revenue budget for the Personal Property Tax is formulated with the understanding that 25% of collections are to be allocated to the current fiscal year, while the remaining 75% are to be allocated to the immediate subsequent fiscal year.

Intergovernmental revenues are amounts derived through agreements with other governments. In general, these revenues are comprised of contributions and grants made by the Federal government to the District. Contributions are recognized as revenue when received. Generally, entitlements and shared revenues are recognized as revenue when received or earlier, if measurable and available. Resources arising from grants are usually subject to certain eligibility requirements; therefore, most grant revenues are recognized as revenue only when the conditions of the grant are met. Grant funds received before all eligibility requirements are met are recorded as deferred revenue.

Licenses and permits, fines and forfeits are not considered susceptible to accrual because they are not both measurable and available to finance expenditures of the

current period. Licenses and permits and fines and forfeits are recorded as revenue when received in cash because they are generally not measurable until received.

The government-wide financial statements, proprietary funds, and pension and private purpose trust funds use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. The pension trust funds recognize additions to net assets from participants' contributions when due, District contributions when due and a formal commitment has been made, net investment income as earned, and expenditures for benefits and refunds when due and payable. The private purpose trust fund recognizes additions to net assets when participants' contributions are received.

Food Stamps

The District participates in the federal government's food stamp program, which is designed to increase the food purchasing power of economically disadvantaged residents. The District mainly uses the Electronic Benefits Transfer (EBT) system that allows program beneficiaries to charge their qualifying food purchases, thereby eliminating the need for paper stamps. Thus, revenues and expenditures are reported in the General Fund when the underlying transaction (the food purchase) occurs.

G. BASIS OF BUDGETING AND BUDGETARY CONTROL POLICIES

Process

About February 1 of each year, the Mayor submits to the Council an all sources budget for the General Fund, for the fiscal year commencing the following October 1. The Council holds public hearings and adopts the budget through passage of a budget request act. The Mayor may not forward and the Council may not adopt any budget for which expenditures and other financing uses exceed revenues and other financing sources. A project-length financial plan is adopted for the General Capital Improvements Fund. About April 1 of each year, the Mayor approves the adopted budget and forwards it to the President of the United States for review. About April 15 of each year, the President submits the reviewed budget to Congress which conducts public hearings and enacts the budget and the authorized Federal payment in-lieu-of taxes through passage of an appropriation law.

Appropriation Act

The legally adopted budget is the annual appropriation public law (Appropriation Act) enacted by Congress and

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

signed by the President. The Appropriation Act authorizes expenditures at the function level or by functional category, such as Public Safety and Justice, Human Support Services or Public Education. Congress must enact a revision that alters the total expenditures of any function. The District may request a revision to the appropriated expenditure amounts in the Appropriation Act by submitting to the President and Congress a request for a supplemental appropriation.

Pursuant to the Reprogramming Policy Act (D. C. Code 47-361), the District may reallocate budget amounts within functions. The appropriated budget amounts in the Budgetary Comparison Statement include all approved reallocations. This statement reflects budget to actual comparisons at the function level (or appropriation title). Appropriated actual expenditures and uses may not legally exceed appropriated budgeted expenditures and uses at the function level as shown on this statement. A negative expenditure variance in the budgetary comparison statement for a function is a violation of the Anti-Deficiency Act (31 U.S.C. 1341). Also, a violation of the Anti-Deficiency Act exists if there is a negative expenditure variance for a particular purpose or object of expenditure within an appropriation.

The Appropriation Act specifies expenditures and net surplus or deficit of revenues. The Appropriation Act does not specify revenue amounts. The legally adopted revenue budget is based primarily on the revenue estimates submitted to the President and Congress as modified through legislation. The Budgetary Comparison Statement shows Revenues and Other Sources as presented in the Conference Report (H.R. 107-593) and Expenditures and Other Uses as contained in the Appropriation Act (PL 107-96.)

The budgetary general fund differs from the GAAP- basis general fund and federal and private resources fund because the latter - the GAAP basis general and federal and private resources funds - focus on economic resources, while the budgetary general fund is prepared using modified accrual basis. For budgetary purposes, the general fund must be considered in conjunction with the federal and private resources major fund as presented in Exhibit 2-d. The District separated the federal and private resources fund from the general fund in order to enhance stakeholders understanding of the general operations of the District. The annual appropriated budget is prepared largely on a modified accrual basis because certain revenues are allowed by law to be collected after the fiscal year and used to pay the liabilities of the current year. These revenues include property taxes. Although, certain budgeting for inventory, Medicaid, certain pension and other employee benefits, and other expenditures are budgeted on a cash basis, these are immaterial.

Adjustments necessary to reconcile the excess (deficiency) of revenues and other financing sources over expenditures and other financing uses from budget basis to GAAP basis are shown in Exhibit 2-d, Budgetary Comparison Statement.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the appropriation, is employed in the governmental funds. Encumbrances outstanding at year-end do not constitute expenditures or liabilities for GAAP or budgetary purposes. All encumbrances lapse in the General Fund at year end, and may automatically be re-appropriated and re-encumbered as part of the subsequent year's budget. The fund balance is "reserved for encumbrances" to indicate the portion that is available for expenditure upon vendor performance.

H. CASH AND INVESTMENTS

Cash

Cash from the governmental and proprietary funds and certain component units is pooled unless prohibited by law. The cash management pool is considered to be cash because it is used as a demand deposit account by each participating fund and component unit. If a fund overdraws its share of the pooled cash, that fund reports a liability to the general fund, which is deemed to have loaned the cash to the overdrawn fund. The general fund reports a receivable from the overdrawn fund.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and mature in such a short period of time that their values are effectively immune from changes in interest rates. The District's cash management pool is considered a cash equivalent. For an investment to be considered a cash equivalent, it must mature no more than three months after the date it is purchased.

Investments

Any cash that is not needed for immediate disbursement is used to purchase investments. The District purchases legally authorized investments consistent with the provisions of the "Financial Institutions Deposit and Investment Amendment Act of 1997" (D.C. Law 12-56), which became effective March 18, 1998. At September 30, 2003 the District has invested primarily in investments backed by U.S. government agencies' securities, with the implicit guarantee of the federal

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

government. Such investments are considered to be the equivalents of cash. The Pension Trust Funds are authorized to invest in fixed income, equity securities and other types of investments. Also, the Private Purpose Trust Fund is authorized to invest in eight portfolios which are comprised of equities, balanced fund, and fixed income securities.

Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost, which approximates fair value. Other investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Asset-backed securities are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar investments. Investment purchases and sales are recorded as of the trade date. These transactions are not finalized until the settlement date. Cash received as collateral on securities lending transactions and investments made with such are reported as assets and as related liabilities for collateral received.

I. NEW ACCOUNTING STANDARDS ADOPTED

In fiscal year 2003, the District adopted three new statements and a Technical Bulletin of financial accounting standards issued by the Government Accounting Standards Board (GASB):

- Statement No. 39 (*Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement No. 14*).
- Statement No. 40 (*Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*).
- Statement No. 41 (*Budgetary Comparison Schedules—Perspective Differences, an amendment of GASB Statement No. 34*).
- Technical Bulletin No. 2003-1 (*Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*).

In May 2002, the GASB issued Statement 39 (*Determining Whether Certain Organizations Are Component Units*). This statement amends GASBS 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their

relationship with the primary government. Generally, it requires reporting as a component unit, an organization that raises and holds economic resources for the direct benefit of a governmental unit.

The Statement continues the requirement in Statement No. 14 to apply professional judgment in determining whether the relationship between a primary government and other organizations for which the primary government is not financially accountable and that do not meet these criteria is such that exclusion of the organization would render the financial statements of the reporting entity misleading or incomplete. Those component units should be reported based on the existing blending and discrete presentation display requirements of Statement No. 14. This statement is required to be implemented for periods beginning after June 15, 2003.

There was no change to the reporting entity of the District as result of the implementation of Statement No. 39.

In March 2003, the Governmental Accounting Standards Board (GASB) issued Statement No. 40, *Deposit and Investment Risk Disclosures* to amend GASBS 3 so as to update the custodial credit risk disclosure requirements of Statement 3 and to establish more comprehensive disclosure requirements addressing other common risks of the deposits and investments of state and local governments. GASB Statement No. 40 eliminates Category 1 and 2 custodial credit risk and disclosures are now limited to:

- Deposits that are not covered by depository insurance and are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.
- Investment securities that are uninsured, are not registered in the name of the government, and are held by either (a) the counterparty or (b) the counterparty's trust department or agent but not in the government's name.

The District adopted GASB Statement No. 40 in fiscal year 2003 and it is thus required to disclose information where applicable covering four principal areas:

- Investment credit risk disclosures, including credit quality information issued by rating agencies;
- Interest rate disclosures that include investment maturity information, such as weighted average maturities or specification identification of the securities.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- Interest rate sensitivity for investments that are highly sensitive to changes in interest rates (examples: enhanced variable-rate investments and certain asset-backed securities); and
- Foreign exchange exposures that would indicate the foreign investment's denomination.

Statement No. 41 clarifies existing guidance on budgetary comparisons in GASB Statement No. 34, *Basic Financial Statements –and Management's Discussion and Analysis—for State and Local Governments*. The amendment to Statement 34 clarifies the budgetary presentation requirements for governments with significant budgetary perspective differences that result in their not being able to present budgetary comparison information for their general fund and major special revenue funds. These governments are required to present budgetary comparison schedules as required supplementary information (RSI) based on the fund, organization, or program structure that the government uses for its legally adopted budget. Significant perspective differences implies that there are budgetary structures that prevent governments from comparing the estimated revenues and appropriations from their legally adopted budgets with the major revenue sources and functional expenditures that are reported in the general fund and major special revenue funds.

For governments that have implemented Statement 34 prior to the issuance of this Statement, the requirements of this Statement are effective for financial statements for periods beginning after June 15, 2002. The District does not have significant perspective differences because its budgetary structure does not preclude comparability with major revenue sources and functional expenditures that are reported in the general fund and major special revenue funds.

Technical Bulletin No. 2003-1 prescribes certain disclosures for derivative transactions that are not reported at fair value on the statement of net assets. The Technical Bulletin provides disclosure requirements for the City's objective for entering into a derivative and the derivative's terms, fair value, and risk exposures. Risk exposures, where applicable, would require disclosures for credit risk, interest rate risk, basis risk, termination risk, rollover risk, and matter-access risk. These disclosure requirements are designed to enhance the understanding of financial statement users of the significance of derivatives to the District's net assets and will assist them in assessing the amounts, timing, and uncertainty of future cash flows.

J. RESTRICTED ASSETS

Certain governmental and proprietary funds, component unit, and all fiduciary fund assets are restricted as to use by legal or contractual requirements. Any excess of restricted assets over liabilities payable from restricted assets is reported as part of the restricted net assets in the government-wide, proprietary, and fiduciary financial statements and as reserved fund balance in the governmental fund financial statements to indicate the portion of the net assets or fund balance that is available for restricted purposes only. Restricted assets also represents cash deposited in bank accounts legally restricted for certain purposes such as the payment of bond principal and interest or the payment of fiscal fees on long-term debt.

K. PREPAID ITEMS AND DEFERRED CHARGES

Prepaid items are for payments made by the District in the current year for services to be received in the subsequent fiscal year. Such advance payments are recorded as prepaid charges at the time of prepayment and recognized as expenditures/expenses when the related services are received.

In governmental funds, bond discounts (premiums) and issuance costs are recognized in the current period as interest and fiscal charges, respectively. In the government-wide financial statements, bond discounts (premiums) and issuance costs are capitalized as deferred charges and amortized as fiscal charges over the term of the related bonds.

L. RECEIVABLES AND PAYABLES

Taxes receivable are taxes levied by the District, including interest and penalties on delinquent taxes, which have not been collected, canceled or abated, less the portion of the receivables estimated not to be collectible. Accounts receivable are amounts owed by customers for goods or services sold. Intergovernmental receivables are amounts owed by other governments to the District.

Accounts payable are amounts owed to vendors for goods or services purchased and received. Intergovernmental payables are amounts owed to other governments.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**M. TRANSFERS AND OTHER TRANSACTIONS BETWEEN FUNDS**

Interfund transactions are categorized as (a) revenues and expense/expenditure transactions consisting of temporary interfund transactions which include reimbursements and quasi-external transactions or (b) reallocation of resources transactions including temporary interfund loans, advances or operating transfers. Reimbursements between funds occur when expenditures/expenses made from one fund are properly applicable to another fund.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the non-current portion of interfund loans) or "advances to/from other funds" (i.e., the current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any remaining balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Short-term amounts owed between the primary government and a discretely presented component unit are classified as "Due to/from primary government" and "Due to/from component unit" on the statement of net assets.

Transfers are included in the results of operations of both the governmental and proprietary funds. Accordingly, transfers are reported in the "Other Financing Sources (Uses)" section of the statement of revenues, expenditures, and changes in fund balance (governmental funds) and in the "Transfers" section in the statement of revenues, expenses, and changes in net assets (proprietary funds).

N. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and land improvements (infrastructure) such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items, are reported in the applicable governmental or business-type activities or component units columns in the government-wide financial statements and proprietary fund financial statements. All purchased capital assets are stated at cost when historical records are available and at estimated historical cost when no historical records exist. Assets acquired through capital leases are stated at the lesser of the present value of the lease payments or the fair value of the asset at the date of lease inception. Donated capital assets are stated at their estimated fair market value on the date received. The cost of maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not

capitalized. Betterments are capitalized over the remaining useful lives of the related capital assets. Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements, as well as the proprietary funds and component units financial statements.

Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. Interest is capitalized in the government-wide financial statements for business-type activities and proprietary funds on assets constructed with long-term debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred on tax-exempt debt from the date of borrowing until completion of the project with interest earned on invested proceeds over the same period.

Capitalization and Depreciation Policies

Assets capitalized have an original cost of \$5 or more per unit. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives for capital assets are shown in **Table 1** by category.

Table 1 – Estimated Useful Lives (by Asset Category)

	Useful Life
Sewer Lines	30-45 years
Buildings	50 years
Furniture, Fixtures & Equipment	5-10 years
Vehicles	5-10 years
Land Improvements	30-45 years

O. CAPITAL LEASES

Leased property having elements of ownership is recorded in the government-wide and proprietary fund financial statements. The related obligations, in amounts equal to the present value of minimum lease payments payable during the remaining term of the leases, are also recorded in these financial statements.

P. COMPENSATED ABSENCES**Benefit Accumulation Policies**

The District's policy allows employees to accumulate unused sick leave, with no maximum limitation. Vacation

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(annual) leave may be accumulated up to 240 hours, depending on the employee's length of service.

Accrual

The District records vacation as an expenditure and related liability in the governmental fund financial statements only to the extent that they mature or come due for payment. Accumulated annual leave that has not matured by the end of the current fiscal year is reported in the government-wide financial statements. Accumulated annual leave of the proprietary funds and discretely presented component units is recorded as an expense and liability as the benefits accrue to employees.

The District does not record a liability for non-vesting accumulating rights to receive sick pay benefits. At the time of retirement, unused sick leave is credited at the rate of 22 days for each month of service and is added to the retirees' years of service in the Civil Service Retirement System and in the District Retirement Program.

An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments at time of retirement rather than be taken as absences due to illness or other contingencies. The District estimates the sick leave liability based on the sick leave accumulated at fiscal year end by employees who are currently eligible for retirement and to receive sick leave payments upon separation, or who are expected to become eligible in the future to receive such payments. Accumulated compensatory leave in lieu of paid overtime is reported in the government-wide financial statements and in the proprietary funds.

Q. LONG-TERM LIABILITIES

Under the District of Columbia Home Rule Act, as amended, no long-term general obligation debt (other than refunding debt) may be issued during any fiscal year in an amount which would cause the amount of the principal and interest paid in any fiscal year on all general obligation debt to exceed 17% of the total local revenues of the then-current fiscal year in which the debt is issued. The legal debt limitation is calculated annually by dividing maximum annual principal and interest by current-year total local-source revenues (excluding revenue and debt of the Water and Sewer Authority, pursuant to the Home Rule Act.)

General obligation bonds, revenue bonds and other long-term liabilities directly related to and intended to be paid from proprietary funds or discretely presented component units are included in the accounts of such funds. All other long-term indebtedness of the District, such as disability compensation, compensated absences, employee

separation incentives and accreted interest liabilities, which have been incurred but not financed, are reported in the government-wide financial statements. Such obligations are to be paid through the District's general fund.

Capital appreciation bonds are issued with a stated interest rate of zero percent. The associated interest is not paid until the bonds mature. Accreted interest is calculated throughout the maturity periods of the bonds and is recorded in the government-wide financial statements. The accreted value of such bonds is the current value, taking into account the interest that has been accumulating and automatically reinvested in the bonds.

R. RESTRICTED NET ASSETS AND FUND BALANCE RESERVATIONS AND DESIGNATIONS

The government-wide and proprietary fund financial statements utilize a net assets presentation. Net assets are categorized as:

- *Invested in Capital Assets, Net of Related Debt* - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* - This category presents net assets subject to external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Non-expendable restricted net assets represent the portion of net assets that must be held in perpetuity in accordance with donor stipulations.
- *Unrestricted Net Assets* - This category represents net assets of the District not restricted for any project or other purpose.

It is the policy of the District to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

In the governmental fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The amount of fund balance that is

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

available for future operations is presented as "unreserved." Reservations of fund balance represent amounts that are legally or statutorily identified for specific purposes or portions that are not appropriable for expenditure. Designations of fund balance represent management's intent to fund future projects, but do not represent a legal or statutory requirement to do so.

As of September 30, 2003, the District had established the following reservations (see **Table 26**):

Reserve for Debt Service–Bond Escrow – This portion of fund balance represents that portion of investments held in escrow that are available for future debt service obligations or requirements.

Reserve for Emergency and Contingency Cash Reserve Fund – This portion of fund balance represents amounts that, in accordance with legislative mandate, are held in an emergency reserve fund, to be used for unanticipated and non-recurring, extraordinary needs of an emergency nature.

Reserve for Budget – This portion of fund balance represents unused FY 2003 Budget Reserve amounts that are available until expended.

Reserve for Long-Term Assets – This portion of fund balance represents those long-term assets that are not available for appropriation and expenditure.

Reserve for Inventory – This portion of fund balance represents that portion of inventories that is not available for appropriation and expenditure.

Reserve for Purpose Restrictions – This portion of fund balance represents resources from grants with limitations on how the District that may expend the funds.

Reserve for Charter School Loan Fund – This portion of fund balance is restricted for the purpose of providing start up costs for new charter schools.

Reserve for Tobacco Settlement (TSFC) – This portion of the District's fund balance represents the fund balance reserved for the purpose of paying future debt service and related expenses associated with TSFC's issuance of Tobacco Settlement Asset-Backed Bonds in FY 2001.

Reserve for Future Benefits – This portion of fund balance represents the portion of resources that is available for benefit payments from the Pension and Private Purpose Trust Funds.

Reserve for Highway Projects – This portion of fund balance is restricted for the purpose of executing federal highway projects.

Reserve for Workers' Compensation – This portion of fund balance is restricted for the purpose of paying restitution for Workers' Compensation Claims.

Reserve for Joint Venture Subsidies -- This portion of fund balance is restricted for the purpose of providing subsidies for the Washington Metropolitan Area Transit Authority (WMATA).

Reserve for Tax Increment Financing Program – This portion of fund balance is restricted to pay for Tax Increment Note.

S. POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 8, employees may receive post-retirement health care and life insurance benefits. In fiscal year 2003, there were 6,724 pre-87 (Civil Service) and 10,836 post-87 (DC Defined Contribution) employees, which totaled 17,560 employees who are eligible for such benefits. The cost of providing such benefits to employees hired prior to October 1, 1987 is borne by the federal government and the District has no liability for this cost. Employees hired after September 30, 1987, pursuant to the D.C. Code 1-622, who subsequently retire may be eligible to continue their health care benefits. Furthermore, in accordance with D.C. Code 1-623, these employees may convert their group life insurance to individual life insurance. The District therefore bears responsibility for the cost relating to employees hired after September 30, 1987. The District does not record a liability for its portion of the cost of post-retirement benefits but rather records such cost as expenses/expenditures when premiums are paid. The District has recognized \$439 for post-retirement health and life insurance premiums paid during fiscal year 2003, and as of September 30, 2003, there were 223 annuitants that received these benefits.

T. USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues, expenses and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**U. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS****Explanation of certain differences between the governmental funds balance sheet and governmental activities on the government-wide statement of net assets**

The governmental funds balance sheet includes reconciliation between fund balances - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that certain liabilities are not reported under modified accrual accounting basis including deferred revenue, but are reported in the government-wide financial statements. Deferred revenue of \$ 38,512 is a reconciling item.

Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balances and governmental activities on the government-wide statement of activities

The governmental funds statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities.

The details of the \$416,932 difference are as follows:

Capital outlay capitalized	\$ 630,395
Less: Depreciation expense	(200,651)
Equipment additions	49,528
Net transfer	(728)
Net capital lease activity	11,136
Equipment financing program	(1,293)
COP	(71,455)
Net adjustment	<u>\$ 416,932</u>

Revenues in the statement of activities that do not provide current financial resources and that are not reported as revenues in the funds include:

Revenue from property taxes	\$2,223
-----------------------------	---------

The details of the \$571,539 difference are as follows:

Bond proceeds	\$ 865,205
Less:	
Refunding bond	(143,875)
Principal payments	<u>(149,791)</u>
Net adjustment	<u>\$ 571,539</u>

The details of the \$77,089 difference are as follows:

Increase (decrease) in expenses due to accrued liabilities:	
Annual leave	\$ \$6,563
Future benefits disability	28,888
CAB interest accretion	2,745
Grant disallowances	10,397
Accrued interest	1,436
Claims and judgments	<u>27,060</u>
Net adjustment	<u>\$ 77,089</u>

NOTE 2. CASH AND INVESTMENTS

A. CASH

The District of Columbia follows the practice of pooling cash and cash equivalents for some of its governmental funds and component units in order to provide better physical custody and control of cash, to enhance operating efficiency and to maximize investment opportunities. Of \$2,328,246 within the custody of the District, in accordance with District policies, substantially all deposits as of September 30, 2003 were insured or collateralized with securities held by the District or by its agent in the District's name. At September 30, 2003, the carrying amount of cash for the primary government was \$2,096,194 and the bank balance was \$1,868,810. The carrying amount of cash (deposits) for the component units was \$232,052 and the bank balance was \$234,735.

B. INVESTMENTS

District of Columbia laws authorize the Treasurer to invest funds in a manner that will provide preservation of principal and meet anticipated daily cash requirements of the District, while maximizing investment earnings. The District purchases legally authorized investments consistent with the provisions of the "Financial Institutions Deposit and Investment Act of 1997" (D.C. Law 12-56), which became effective March 18, 1998. The District's current investment policy limits investments to obligations of the United States and agencies thereof, prime commercial paper, bankers' acceptances and repurchase agreements fully collateralized in obligations of the United States government and agency securities. During the fiscal year, the District's investments consisted primarily of money market funds and/or obligations backed by United States government securities and agencies.

In fiscal year 2003, the District elected to implement GASBS 40, which requires that state and local governments disclose investment risk exposures. Consequently, the District and its discretely presented component units' investment are subject to interest rate, credit, custodial and foreign currency risk as described below:

- *Interest Rate Risk* – This approach limits exposure to fair value losses arising from rising interest rates. During the fiscal year, the District's investments were limited to U.S. government and agency securities and money market funds of less than 90 days.
- *Credit Risk* - The District invests in obligations of the United States government and agencies securities,

prime commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's, banker's acceptances, and repurchase agreements. During the fiscal year, the District's investments were limited to U.S. government and agency securities and money market funds of less than 90 days.

- *Custodial Risk* - Custodial risk occurs in the event that investment securities are uninsured and/or not registered in the name of the government, and there is failure of the counterparty. In such a case, the government will not be able to recover the value of its investments or collateral securities held in the possession of an outside party. The District had no custodial risk exposure during the fiscal year. The District collateralized all required investments during fiscal year 2003. All collateral for investments is held in the District's name by the Federal Reserve in a custodial account. Any funds not invested at the end of the day are placed in overnight investment in the District's name.
- *Foreign Currency Risk* - As a general policy of the Retirement Board, the Board managers with authority to invest in a portfolio consisting primarily of non-U.S. securities, may structure optional currency positions which minimize tracking error and enhance risk-adjusted returns relative to the benchmark.

Derivative Financial Instruments

In accordance with the policies of the Retirement Board and pursuant to D. C. Code Section 1-741(a)(2)(C), during 2003, the Pension Trust Funds held certain derivative investments to increase potential earnings or to hedge against potential losses. Derivative investments are defined as financial instruments, the values of which depend on or are derived from the value of an underlying asset, reference rate, or index. Derivative investments often contain exposure to market risk resulting from fluctuations in interest and currency exchange rates or changes in the price or principal value of a security. The investment credit risk results from the creditworthiness of the counterparties to the contracts and, for asset backed securities and collateralized mortgage obligations, the creditworthiness of the related consumers and mortgages. The Retirement Board maintains that all contracts are legally permissible in accordance with its policy.

For 2003, derivative investments included foreign currency forward contracts, mortgage-backed security pools, collateralized mortgage obligations, asset backed securities and floating rate notes, interest only treasury securities, bond options and futures, and equity index futures.

NOTE 2. CASH AND INVESTMENTS

Table 2a – Investments by Type

	<u>Total Carrying Value</u>	
INVESTMENTS		
Primary Government:		
U. S. government securities	\$ 66,343	
Corporate securities	5,000	
Pension trust funds investments:		
Equities	1,124,494	
Fixed income securities (of which \$25,210 is on securities loan with securities and other collateral)	556,134	1,751,971
	<hr/>	<hr/>
Mutual funds	48,335	
Pension trust funds investments:		
Equity securities	103,319	
Fixed income securities	59,564	
Securities lending collective investment pool	169,033	
Private purpose trust funds investments	13,798	394,049
Total primary government	<hr/>	<hr/>
		2,146,020
Component Units:		
U. S. government securities	662,748	
Repurchase agreements	1,307	
Corporate securities	15,031	
Investment contracts	76,727	
Mutual funds	33,299	
Total component units	<hr/>	<hr/>
		789,112
Total reporting entity		<hr/>
		2,935,132
DEPOSITS		
Primary government		2,096,194
Component units		232,052
		<hr/>
Total Deposits		<hr/>
		\$ 2,328,246

NOTE 2. CASH AND INVESTMENTS**Table 2b – Reconciliation of the District's deposit and investment balances**

Total investments per Table 2a			\$	2,935,132
Total deposits				2,328,246
Total			\$	5,263,378

	Exhibit 1-a	Exhibit 4-a	Total
Cash and cash equivalents	\$ 883,539	\$ -	\$ 883,539
Investments	76,579	-	76,579
Cash and cash equivalents (restricted)	950,917	493,790	1,444,707
Investments (restricted)	832,211	2,026,342	2,858,553
Total	\$ 2,743,246	\$ 2,520,132	\$ 5,263,378

The Pension Trust Funds used asset backed securities (ABS), collateralized mortgage obligations (CMOs), mortgage-backed pools and securities, structured notes, stripped/zero coupon bonds, inflation index bonds, and mortgage backed security forward contracts primarily to increase potential returns. ABS and mortgage-backed pools and securities offer higher potential yields than comparable duration U. S. Treasury Notes with higher credit and market risks. CMOs also offer higher potential yields than comparable duration U. S. Treasury Notes, with higher market risks, although the market risks may be higher or lower than comparable mortgage-backed pools. Market risk for asset backed and mortgage backed pools and securities are managed by monitoring the duration of the investments. Credit risk is managed by monitoring credit ratings, the underlying collateral for each security and any related guarantee.

The Pension Trust Funds invest in structured notes with step-up coupons that offer higher yields than comparable U. S. Treasury Notes in exchange for higher market and/or credit risks. Securities with step-up coupons pay

interest according to a pre-set series of interest rates, which start at one rate and then step-up to higher rates on specific dates. The Funds also contain stripped/zero coupon bonds, which are purchased at a discount and do not pay an interest rate.

The Pension Trust Funds also hold derivative investments indirectly by participating in pooled, commingled, mutual or short-term funds that hold derivatives. Information regarding any risks associated with these holdings is not generally available.

At September 30, 2003, the Pension Trust Funds' portfolio included \$287,002 of derivative investments, or 12% of the pension investment portfolio. The proportion of derivative investments varied at times throughout the year. Further information regarding balances throughout the year is not available.

Derivative investments by type at September 30, 2003 are shown in **Table 3**.

Table 3 – Derivative Investments by Type

Investment Instrument Type	
Asset-backed securities	\$ 6,977
Collateralized mortgage obligations	20,014
Mortgage -backed security pools and securities	48,470
Structured notes (including stripped securities)	7,398
Inflation index bonds	30,105
Mortgage -backed security forward contracts	176,934
Options	(2,896)
Total Derivatives	\$ 287,002

NOTE 2. CASH AND INVESTMENTS**C. SECURITIES LENDING**

During FY 2003, the master custodian, at the direction of the Retirement Board, lent the Pension Trust Funds' equity securities and received collateral in the form of cash (United States and foreign currency), securities issued or guaranteed by the United States government, the sovereign debt of Organization of Economic Cooperation and Development countries and irrevocable letters of credit by a bank insured by the FDIC. The collateral could not be pledged or sold unless the borrower defaulted on the loan. Borrowers delivered collateral for each loan equal to (i) at least 102% of the market value of the loaned securities if these securities were sovereign debt issued by a foreign government denominated in U. S. dollars or their primary trading market was located in the United States; or (ii) 105% of the market value of the loaned securities in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States.

The Retirement Board and the borrowers maintained the right to terminate all securities lending transactions on demand.

The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. At September 30, 2003, the investment pool had an average duration of 79 days and an average weighted maturity of 226 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral.

During FY 2003, the Retirement Board did not restrict the amount of loans that the master custodian made on its behalf. No failure to return loaned securities or to pay distributions occurred during the year, and no losses were incurred from a default of a borrower or the master custodian. The Funds had no credit risk exposure to borrowers as of year-end. As of September 30, 2003, the collateral held and the market value of securities on loan were \$195,748 and \$189,225 respectively. The collateral held is included in cash and investments shown in Exhibit 4-a and the liabilities associated with the securities lending transactions are reported in Exhibit 4-a, at their carrying amounts, which are less than their market values.

At the close of 2003, gross earnings from securities lending transactions totaled \$2,201. The income (net of amortization and accretion), the net realized/unrealized gain attributable to discount and premium, and the net increase in net assets resulting from operations totaled \$1,407, \$247 and \$1,655, respectively. The Pension Trust Funds' share of the net earnings on securities lending transactions totaled \$283 in 2003.

NOTE 3. RESTRICTED ASSETS

At September 30, 2003, restricted assets of the primary government and its component units totaled \$4,303,260 as summarized in **Table 4**.

Table 4 – Summary of Restricted Assets

Governmental Funds/Governmental Activities					
	General	Federal Private Resources	General Capital Improvements	Non-Major	Total
Bond Escrow Accounts	\$ 213,217		\$ -	\$ -	\$ 213,217
Public Transportation	-		43,744	-	43,744
Emergency Cash/Debt Service Reserves	253,800	1,470	-	79,095	334,365
Total	<u>\$ 467,017</u>	<u>1,470</u>	<u>\$ 43,744</u>	<u>\$ 79,095</u>	<u>\$ 591,326</u>
Proprietary Funds/Business-type Activities					
	Lottery & Games	Unemployment Compensation	Total	Fiduciary Funds	Component Units
Bond Escrow Accounts	\$ -	\$ -	\$ -	\$ -	\$ 788,593
Unpaid Prizes	64,906	-	64,906	-	-
University Endowment	-	-	-	-	12,308
Benefits	-	297,563	297,563	2,520,132	-
University	-	-	-	-	28,432
Total	<u>\$ 64,906</u>	<u>\$ 297,563</u>	<u>\$ 362,469</u>	<u>\$ 2,520,132</u>	<u>\$ 829,333</u>

NOTE 4. COMPONENT UNIT AND INTERFUND BALANCES AND OTHER RECEIVABLES**A. RECEIVABLES AND PAYABLES BETWEEN FUNDS AND COMPONENT UNITS**

Due to/due from and interfund receivable and payable balances for each individual fund and component unit at September 30, 2003 are shown in **Table 5**.

Table 5 – Summary of Due To/Due From and Interfund Balances

Fund or Component Unit	Primary Government/ Component Units		Interfund	
	Receivables	Payables	Receivables	Payables
General	\$ 957	\$ 24,961	\$ 255,863	\$ 721
Federal & Private Resources	-	-	25,086	164,516
General Capital Improvements	-	-	8,206	90,441
Non-major governmental	-	-	-	8,207
Unemployment Compensation	-	-	721	25,250
Pension Trust	-	-	46	741
Agency	-	-	-	46
Water and Sewer Authority	17,740	154	-	-
Washington Convention Center	5,505	-	-	-
Sports and Entertainment Commission	-	803	-	-
University of the District of Columbia	1,716	-	-	-
Total	\$ 25,918	\$ 25,918	\$ 289,922	\$ 289,922

The above balances represent the impact of transactions between the funds, which will be settled during fiscal year 2004.

B. INTERFUND TRANSFERS

Table 6 shows a summary of interfund transfers for the fiscal year ended September 30, 2003.

Table 6 – Summary of Interfund Transfers

TRANSFER FROM (OUT)	TRANSFER TO (IN)	PURPOSE	AMOUNT
General Fund	Nonmajor Highway Trust Funds	Motor fuel taxes dedicated to the Highway Trust Fund	\$ 26,808
Nonmajor Highway Trust Fund	General Capital Improvements	Equity transfer of the right away separation from the Highway Trust Fund	26,510
General Fund	Nonmajor Enterprise Fund	Transfer of Nursing facilities to the Enterprise fund	34,476
General Fund	Special Revenue Fund	To cover non-reimbursable program expenditures	99,075
Lottery and Games	General Fund	DC Lottery and Games excess revenues, after operating cost, to the General Fund	72,050
TOTAL INTERFUND TRANSFERS			\$ 258,919

NOTE 4. COMPONENT UNIT AND INTERFUND BALANCES AND OTHER RECEIVABLES**C. OTHER RECEIVABLES**

Taxes and other receivables are valued at their estimated collectible amount. These receivables are presented in various funds as shown in **Table 7**.

Table 7 - Other Receivables

	General	Federal & Private Resources	General Capital Improvement s	Nonmajor Government al Funds	Lottery and Games	Unemploy ment Compensatio n	Nonmajor Proprietary Fund	Pension Trust Funds	Private Purpose Trust Fund
Gross Receivable:									
Taxes	\$ 330,864	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts	220,974	539,936	63,955	3,113	3,677	19,117	8,278	2,860	21
Total gross receivable	551,838	539,936	63,955	3,113	3,677	19,117	8,278	2,860	21
Less-allowance for uncollectibles	238,793	133,646	-	-	456	-	654	-	-
Total net receivable	\$ 313,045	\$ 406,290	\$ 63,955	\$ 3,113	\$ 3,221	\$ 19,117	\$ 7,624	\$ 2,860	\$ 21

NOTE 5. CAPITAL ASSETS**Capital Outlays**

Capital outlays totaled \$762,145 for the fiscal year ended September 30, 2003, which are reported in the General Capital Improvements and Other Nonmajor Governmental Funds. As construction progresses, the cumulative expenditures are capitalized as construction in progress in the Governmental Activities column of the Government-Wide Financial Statements. Upon completion of the asset, the balance in the Construction in Progress account is transferred to an appropriate descriptive capital asset account such as building or equipment.

NOTE 5. CAPITAL ASSETS

A. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS BY CLASS

Table 8 presents the changes in the governmental activities capital assets by category for the primary government:

Table 8 - Changes in the Governmental Activities Capital Assets by Asset Class

Asset Class	Balance October 1, 2002	Additions	Transfers/ Dispositions	Transfers from CIP	Balance September 30, 2003
Non Depreciable:					
Land	\$ 219,076	\$ -	\$ -	\$ -	\$ 219,076
Construction in Progress (CIP)	1,006,432	630,395	-	(498,026)	1,138,801
Total non-depreciable	<u>1,225,508</u>	<u>630,395</u>	<u>-</u>	<u>(498,026)</u>	<u>1,357,877</u>
Depreciable:					
Infrastructure	2,371,888	-	-	245,448	2,617,336
Buildings	2,109,642	-	-	219,295	2,328,937
Equipment	420,053	49,528	(4,844)	33,283	498,020
Total depreciable	<u>4,901,583</u>	<u>49,528</u>	<u>(4,844)</u>	<u>498,026</u>	<u>5,444,293</u>
Less: Accumulated Depreciation for				-	-
Infrastructure	1,199,505	57,609	-	-	1,257,114
Building	809,449	87,128	-	-	896,577
Equipment	217,320	55,914	(4,116)	-	269,118
Total Accumulated Depreciation	<u>2,226,274</u>	<u>200,651</u>	<u>(4,116)</u>	<u>-</u>	<u>2,422,809</u>
Total depreciable, Net	<u>2,675,309</u>	<u>(151,123)</u>	<u>(728)</u>	<u>498,026</u>	<u>3,021,484</u>
Net governmental activities capital assets	<u>\$ 3,900,817</u>	<u>\$ 479,272</u>	<u>\$ (728)</u>	<u>\$ -</u>	<u>\$ 4,379,361</u>
Local Source	3,320,951	312,830	(728)	-	3,633,053
Intergovernmental	<u>579,866</u>	<u>166,442</u>	<u>-</u>	<u>-</u>	<u>746,308</u>
Total resources invested, net	<u>\$ 3,900,817</u>	<u>\$ 479,272</u>	<u>\$ (728)</u>	<u>-</u>	<u>\$ 4,379,361</u>

NOTE 5. CAPITAL ASSETS**B. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS BY FUNCTION**

Table 9 presents the changes in the governmental activities capital assets by function for the primary government:

Table 9- Governmental Activities Capital Assets by Function

Function	Balance October 1, 2002	Transfers/ Additions	Transfers/ Dispositions	CIP Transfers in (out)	Balance September 30, 2003
Governmental direction and support	\$ 237,234	\$ 2,307	\$ (2,828)	\$ 63,693	\$ 300,406
Economic development and regulation	87,810	1,704	-	-	89,514
Public safety and justice	528,281	19,574	(1,960)	33,057	578,952
Public education system	820,230	14,674	(45)	114,845	949,704
Human support services	573,266	3,351	(11)	32,126	608,732
Public works	2,873,838	7,918	-	254,305	3,136,061
Construction in progress (CIP)	1,006,432	630,395	-	(498,026)	1,138,801
Total	\$ 6,127,091	\$ 679,923	\$ (4,844)	\$ -	\$ 6,802,170

C. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS ACCUMULATED DEPRECIATION BY FUNCTION

A summary of changes in governmental activities capital assets depreciation by function for the primary government is shown in Table 10.

Table 10 – Governmental Activities Capital Assets Accumulated Depreciation By Function

Function	Balance October 1, 2002	Additions	Transfers/ Dispositions	Balance September 30, 2003
Government direction and support	\$ 60,989	\$ 39,446	\$ (2,275)	\$ 98,160
Economic development and regulation	18,884	2,559	-	21,443
Public safety and justice	200,049	23,952	(1,795)	222,206
Public education system	401,445	18,961	(45)	420,361
Human support services	248,732	10,905	(1)	259,636
Public works	1,296,175	104,827	-	1,401,002
Total	\$ 2,226,274	\$ 200,650	\$ (4,116)	\$ 2,422,808

NOTE 5. CAPITAL ASSETS

D. BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS

Business-Type Activities Capital Assets are presented in Table 11.

Table 11 –Business-Type Activities Capital Assets

Asset Class	Balance October 1, 2002	Additions	Transfers/ Dispositions	Balance September 30, 2003
Lottery:				
Equipment	\$ 3,725	\$ 231	\$ -	\$ 3,956
Total	3,725	231	-	3,956
Nonmajor business-type	-	7,604	-	7,604
Total Business-Type	3,725	7,835	-	11,560
Less-accumulated depreciation for:				
Lottery	(2,230)	(372)	-	(2,602)
Nonmajor	-	(4,926)	-	(4,926)
Total accumulated depreciation	(2,230)	(5,298)	-	(7,528)
Net capital assets	\$ 1,495	\$ 2,537	\$ -	\$ 4,032

E. DISCRETELY PRESENTED COMPONENT UNITS CAPITAL ASSETS

A summary of capital assets by class for the discretely presented component units is shown in Tables 12 and 13.

Table 12 - Capital Assets by Class for the Discretely Presented Component Units

Asset Class	Balance October 1, 2002	Additions	Transfers/ Dispositions	CIP Transfers in (out)	Balance September 30, 2003
Land	\$ 12,705	\$ 163	\$ -	\$ -	\$ 12,868
Utility plant	1,806,468	16,171	-	25,103	1,847,742
Buildings	153,445	178,615	-	617,929	949,989
Equipment	115,105	8,443	(1,739)	11,642	133,451
Artwork	-	2,652	-	-	2,652
Construction in progress	790,393	232,994	-	(654,674)	368,713
Total	2,878,116	439,038	(1,739)	-	3,315,415
Less-accumulated depreciation for					
Utility plant	(551,727)	(28,341)	-	-	(580,068)
Buildings	(92,201)	(18,533)	-	-	(110,734)
Equipment	(75,429)	(13,730)	1,510	-	(87,649)
Total accumulated depreciation	(719,357)	(60,604)	1,510	-	(778,451)
Net Capital Assets	\$ 2,158,759	\$ 378,434	\$ (229)	\$ -	\$ 2,536,964

NOTE 5. CAPITAL ASSETS

Table 13– Capital Assets by Component Unit

Component Units	Balance October 1, 2002	Additions	Transfers/ Dispositions	Balance September 30, 2003
University of the District of Columbia	\$ 144,466	\$ 5,536	\$ -	\$ 150,002
Washington Convention Center	633,117	200,271		833,388
Water and Sewer Authority	2,054,575	232,720	(1,739)	2,285,556
Sports and Entertainment Commission	41,204	361	-	41,565
Housing Finance Agency	4,754	150		4,904
Total	2,878,116	439,038	(1,739)	3,315,415
Less-accumulated depreciation for				
University of the District of Columbia	(86,774)	(4,893)	-	(91,667)
Washington Convention Center	(8,283)	(14,007)	-	(22,290)
Water and Sewer Authority	(596,602)	(39,523)	1,510	(634,615)
Sports and Entertainment Commission	(26,038)	(1,926)	-	(27,964)
Housing Finance Agency	(1,660)	(255)	-	(1,915)
Total accumulated depreciation	<u>(719,357)</u>	<u>(60,604)</u>	<u>1,510</u>	<u>(778,451)</u>
Net component unit capital assets	<u>\$ 2,158,759</u>	<u>\$ 378,434</u>	<u>\$ (229)</u>	<u>\$ 2,536,964</u>

NOTE 5. CAPITAL ASSETS**F. CONSTRUCTION IN PROGRESS**

Construction in progress by function for governmental activities capital assets is shown in **Table 14**.

Table 14 – Construction in Progress by Function

Function and Subfunction	Number of Projects	Author-izations	Expenditures			Unexpended Balance
			Prior Years	Current Year	Total	
PRIMARY GOVERNMENT						
Governmental Direction and Support:						
Finance	3	\$ 132,085	\$ 104,780	\$ 8,922	\$ 113,702	\$ 18,383
Personnel	1	5,980	4,383	1,597	5,980	-
Legislative	1	1,984	1,600	384	1,984	-
Administrative	12	300,933	89,003	66,982	155,985	144,948
Total	17	440,982	199,766	77,885	277,651	163,331
Public Safety and Justice:						
Police	2	37,094	7,166	3,032	10,198	26,896
Fire	8	29,394	661	8,652	9,313	20,081
Correction	-	-	-	-	-	-
Emergency Preparedness	-	-	-	-	-	-
Judicial	-	-	-	-	-	-
Total	10	66,488	7,827	11,684	19,511	46,977
Economic Development and Regulation						
Community Development	3	45,771	-	5,266	5,266	40,505
Planning & Economic Development	1	2,159	-	2,159	2,159	-
Total	4	47,930	-	7,425	7,425	40,505
Public Education System:						
Public School System	45	1,045,242	213,246	55,336	268,582	776,660
Human Support Services:						
Health and welfare	28	218,577	46,906	45,758	92,664	125,913
Human relations	5	9,042	883	218	1,101	7,941
Recreation	6	99,611	1,162	6,993	8,155	91,456
Total	39	327,230	48,951	52,969	101,920	225,310
Public Works:						
Environmental	78	745,638	435,591	28,121	463,712	281,926
Total	78	745,638	435,591	28,121	463,712	281,926
Totals	193	\$ 2,673,510	\$ 905,381	\$ 233,420	\$ 1,138,801	\$ 1,534,709

NOTE 6. CONDUIT DEBT TRANSACTIONS**INDUSTRIAL REVENUE BOND PROGRAM**

The District has issued, under its Industrial Revenue Bond Program, private activity bonds for which the principal and interest are payable solely from defined revenues of private entities, such as non-profit organizations. The District has no obligation for this debt beyond resources that may have been provided by related leases or loans.

Organizations participating in the Industrial Revenue Bond Program are allowed to borrow at the prevailing municipal bond rate. These private activity bonds provide economic incentive to construct, modernize or enhance private entity facilities in the District thereby supporting the District's economic base. As of September 30, 2003, the aggregate outstanding principal amount for these conduit debt obligations was approximately \$3.4 billion.

NOTE 7. LONG-TERM LIABILITIES**A. LONG-TERM DEBT**

In the government-wide financial statements and proprietary funds, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary funds statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance, costs are reported as deferred charges.

Governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

General Obligation Bonds

At September 30, 2002, the District had a serial and term general obligation bonds outstanding balance of \$2,670,573. On October 15, 2002, the District issued \$149,900 in multimodal general obligation bonds (Series 2002A) scheduled to mature on June 1, 2019 and \$224,300 in multimodal general obligation bonds (Series 2002B) scheduled to mature on June 1, 2027. Bond proceeds were used to (i) fund capital projects totaling \$367,930 and (ii) pay \$6,269 for costs and expenses of issuing and delivering the bonds.

On October 31, 2002, the District issued \$38,175 in general obligation refunding bonds (Series 2002C) scheduled to mature on June 1, 2014 and \$124,995 in multimodal general obligation refunding bonds (Series 2002D) scheduled to mature on June 1, 2031. Bond proceeds were used to (i) defease \$143,875 of the

District's outstanding general obligation bonds and (ii) pay \$2,478 for costs and expenses of issuing and delivering the bonds.

The District completed the advance refunding to reduce its total debt service payment over the next 29 years by approximately \$17,000 and to obtain an economic gain of approximately \$14,600.

On July 31, 2003, the District issued \$327,835 in general obligation bonds (Series 2003A) scheduled to mature on June 1, 2028. Bond proceeds were used to (i) fund capital projects totaling \$338,961 and (ii) pay \$5,133 for costs and expenses of issuing and delivering the bonds.

Prior to the creation of the Water and Sewer Authority as an independent entity, the District issued general obligation bonds to fund improvements to the water and wastewater system. The Water and Sewer Authority is responsible for this debt. While the Water and Sewer Authority is not directly liable for the general obligation bonds, it is required by enabling legislation to transfer to the District the funds necessary to pay its portion of the debt service on these bonds. Accordingly, District general obligation bonds totaling \$65,645 are reflected in the financial statements of the Water and Sewer Authority.

The remainder of the general obligation bonds were authorized and issued primarily to provide funds for certain other capital projects and improvements. All general obligation bonds are backed by the full faith and credit of the District. In addition, the bonds are secured by a security interest in and lien on the funds derived from a Special Real Property Tax levied annually by the District on portions of certain real property. These tax revenues have been dedicated for payment of bond principal and interest. Amounts collected are deposited in banks and held in escrow for payment of bond principal and interest when due. A summary of the outstanding debt totaling \$3,251,118 at September 30, 2003 is shown in Table 16.

NOTE 7. LONG – TERM LIABILITIES**TIF Notes and Bonds**

The Tax Increment Financing (TIF) Notes and Bonds are special limited obligations of the District. In 2001, the District promised to pay an aggregate principal amount of \$6,900 to the House on F Street Development Sponsor. The sole source of repayment of the TIF Notes shall be the incremental revenues from the Project, and the District shall have no obligation to make any payments on the TIF Notes, other than through the remittance to the Paying Agent. If the incremental revenues are insufficient to pay the principal and interest due on the TIF Notes when due, such payment shortfall shall not constitute a default under the TIF agreement. If and when the incremental revenues are sufficient, the District shall pay the amount of any shortfall to the Development Sponsor without any penalty interest or premium thereon.

In 2002, the District promised to pay an aggregate principal amount of \$73,650 to the Gallery Place Development Sponsor and \$45,995 to the Mandarin Hotel Development Sponsor. Two Tax Increment Financing (TIF) Bonds were issued pursuant to the District of Columbia Tax Increment Financing Authorization Act of 1998, as amended, and the Trust Indenture dated as of April 1, 2002. Interest rates on the Gallery Place and Mandarin Hotel TIF Bonds range from 4.0% to 5.5%.

Tobacco Bonds

In November 1998, the District (along with a number of other States and various jurisdictions) signed a Master Settlement Agreement with the major U.S. tobacco companies that ended litigation over health care treatment costs incurred for smoking-related illnesses. Under the settlement, the District is scheduled to receive total annual payments aggregating an estimated \$1.2 billion by 2025. There are a number of potential adjustments to this schedule, including an inflation adjustment and a cigarette volume adjustment. In addition, there are numerous risks regarding whether the District will receive the full amount to which it is entitled under the terms of the Master Settlement Agreement, including various lawsuits outside the District alleging that the Master Settlement Agreement is void or voidable.

In 2001, the Tobacco Corporation issued \$521,105 aggregate principal amount of its Tobacco Settlement Asset-Backed Bonds, Series 2001, of which \$506,550 was outstanding as of September 30, 2003. The payment of those bonds was secured by the distribution under the Master Settlement Agreement. Payments received by the Tobacco Corporation under the Master Settlement Agreement in excess of the annual debt service requirements for the Tobacco Bonds revert to the General

Fund. A total of \$5,069 was returned to the General Fund during fiscal year 2003. The Tobacco Bonds are neither general nor moral obligations of the District and are not secured by a pledge of the full faith and credit of the District.

Qualified Zone Academy Bond

The District issued the Qualified Zone Academy Bond (QZAB) as a taxable general obligation bond without incurring interest expense. The District received \$4,665 and is obligated to deposit a total amount of \$3,582 into a sinking fund in fourteen equal amounts of \$255 beginning December 1, 2002.

Certificate of Participation (COP)

The Certificates were issued under an Indenture of Trust between Wells Fargo Delaware Trust Company (the "Lessor") and Wells Fargo Bank Minnesota, N.A. (the "Trustee") to provide funds to finance a portion of the design and construction of a public safety and emergency preparedness communications and command center and a portion of the design, construction and installation of a high-speed telecommunications network. The District agreed in the Lease Agreement to make lease payments (the "Lease Payments"), which are expected to be sufficient to pay the principal of and interest on the Certificates.

Tax Revenue Anticipation Notes

The District issued \$150,000 in Tax Revenue Anticipation Notes (TRANs) on October 30, 2002. This is a short term financing method used to provide for seasonal cash flow needs. Operational and other disbursement costs are covered by the TRAN proceeds until periodic tax, grants and other revenues are received. The FY 2003 TRAN, as prescribed by law, was repaid, in the current year, on September 30, 2003.

NOTE 7. LONG-TERM LIABILITIES**Table 16 - Changes in Governmental Activities Long-Term Debt of Primary Government**

	General Obligation Bonds	TIF Notes	TIF Bonds	Tobacco Bonds	QZAB	Total
Debt payable at October 1, 2002	\$ 2,670,573	6,900	119,645	514,280	3,582	3,314,980
Bond and note proceeds:						-
Series 2002A	149,900	-	-	-	-	149,900
Series 2002B	224,300	-	-	-	-	224,300
Series 2002C	38,175	-	-	-	-	38,175
Series 2002D	124,995	-	-	-	-	124,995
Series 2003A	327,835	-	-	-	-	327,835
Total	\$ 3,535,778	6,900	119,645	514,280	3,582	4,180,185
Debt payments:						
Principal matured	140,785	1,021	-	7,730	255	149,791
Principal defeased	143,875	-	-	-	-	143,875
Debt payable September 30, 2003	\$ 3,251,118	5,879	119,645	506,550	3,327	3,886,519

Summary of debt service requirements for general long-term debt to maturity for these bonds is shown in **Table 17a** and summary of Debt Service Requirements for Qualified Zone Academy Bond and Emergency Preparedness Communications Center and Related Technology to Maturity is shown in **Table 17b**.

Table 17a - Summary of Debt Service Requirements for General Long-Term Debt to Maturity

Due to the uncertainty of the future tax increment receipts, future payments on TIF notes and bonds are not included in the summary of debt service requirements.

Year Ending September 30	General Obligation		Tobacco Bonds		Total
	Principal	Interest	Principal	Interest	
2004	\$ 146,505	161,661	3,810	32,712	344,688
2005	166,020	153,140	4,000	32,473	355,633
2006	174,185	143,991	4,720	32,224	355,120
2007	180,865	134,737	5,215	31,928	352,745
2008	190,615	124,798	12,585	31,602	359,600
2009 - 2013	866,813	511,765	77,025	145,933	1,601,536
2014 - 2018	479,990	312,290	105,145	108,483	1,005,908
2019 - 2023	503,700	185,571	147,805	79,719	916,795
2024 - 2028	498,555	64,009	146,245	22,769	731,578
2029 - 2034	43,870	2,359	-	-	46,229
Total	\$ 3,251,118	1,794,321	506,550	517,843	6,069,832

NOTE 7. LONG – TERM LIABILITIES

Table 17b - Summary of Debt Service Requirements for Qualified Zone Academy Bond and Emergency Preparedness Communications Center and Related Technology to Maturity

Year Ending September 30	Qualified Zone Academy Bond (QZAB)			Emergency Preparedness Communications Center & Related Technology (COP)		
	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 256	\$ 24	\$ 280	\$ -	\$ 3,358	\$ 3,358
2005	256	35	291	2,480	3,321	5,801
2006	256	47	303	2,555	3,246	5,801
2007	256	59	315	2,635	3,168	5,803
2008	256	70	326	2,735	3,063	5,798
2009-2013	1,280	232	1,512	15,570	13,433	29,003
2014-2018	767	148	915	29,260	4,629	33,889
2019-2023	-	-	-	16,220	2,721	18,941
Total	\$ 3,327	\$ 615	\$ 3,942	\$ 71,455	\$ 36,939	\$ 108,394

Defeased Bonds

In prior years, the District has defeased certain bond issues by issuing refunding bonds. As of September 30,

2003, the total amount of defeased debt outstanding but removed from the government-wide financial statement was \$827,499. The amount defeased during the year ended September 30, 2003 is presented in **Table 18**.

Table 18 – Summary of Defeased Bonds in Fiscal Year 2003

Defeased by Bond 2002D:

Bond Series	Interest Rate (%)	Amount
1992B	6.125-6.250	\$ 6,920
1993E	5.750-6.000	25,600
1997A	5.2-6.0	86,475
1998A	4.5-5.2	13,100
2001B	5-5.25	11,780
TOTAL:		\$ 143,875

NOTE 7. LONG-TERM LIABILITIES**COMPONENT UNITS****Water and Sewer Authority**

The Water and Sewer Authority derives its funding for future capital projects from the issuance of revenue bonds, notes payable to the federal government and various other non-debt sources of financing. The public utility revenue bonds and notes payable to the federal government for the Washington Aqueduct are considered senior debt. Notes payable to the federal government for the Washington Aqueduct are specifically secured by user charges assessed on retail customers. During the year ended September 30, 2003, the highest rate on these notes was 6.75% and the lowest rate was 4.55%. Debt outstanding at September 30, 2003 totaling \$525,902 included net unamortized bond premiums, discounts, and issuance costs of (\$511) and a remaining principal balance of \$526,413.

Commercial Paper Note Payable

During the fiscal year 2003, the Authority issued an additional \$10 million in commercial paper, with interest rates ranging from 1.40 to 1.65 percent. All maturities were less than 270-days, as stipulated in the Board resolution authorizing the program. The Authority paid off a total of \$100 million in Commercial paper. At the end of the fiscal year, the Authority had no balance payable in Commercial paper.

A summary of Water and Sewer Authority's debt service requirements to maturity for principal and interest is shown in **Table 19**.

Table 19 – Water and Sewer Authority Debt Service Requirements to Maturity

Year Ending September 30	Principal	Interest	Total
2004	\$ 15,892	27,972	43,864
2005	16,134	27,164	43,298
2006	13,385	26,299	39,684
2007	7,548	25,575	33,123
2008	13,951	24,922	38,873
2009 - 2013	61,354	113,449	174,803
2014 - 2018	68,024	95,629	163,653
2019 - 2023	89,069	73,848	162,917
2024 - 2028	127,927	43,795	171,722
2029 - 2033	108,481	16,433	124,914
2034 - 2038	2,764	581	3,345
2039 - 2042	1,884	124	2,008
Sub-total	\$ 526,413	475,791	1,002,204
Less: Unamortized Bond Discount	(511)	-	(511)
Total	\$ 525,902	475,791	1,001,693

Washington Convention Center Authority

On September 29, 1998, the Washington Convention Center Authority issued \$524 million in senior lien dedicated tax revenue serial and term bonds at various rates and maturities.

The bond proceeds were used to construct and equip the new convention center. The 1998 bonds are special obligations of the Washington Convention Center Authority. The 1998 Bonds are payable solely from dedicated tax receipts and pledged funds established under the Trust Agreement.

The Washington Convention Center Authority (WCCA) Act authorized the pledge of the dedicated taxes to secure the repayment of the 1998 bonds. Pursuant to the WCCA Act, the District has also pledged not to limit or alter any rights vested in the Washington Convention Center Authority to fulfill agreements made with holders of the 1998 Bonds, or in any way impair rights and remedies of bondholders until the 1998 bonds and the interest thereon are paid in full.

A summary of Washington Convention Center Authority's debt service requirements to maturity for principal and interest is shown in **Table 20**.

NOTE 7. LONG – TERM LIABILITIES

Table 20 – Washington Convention Center Authority Debt Service Requirements to Maturity

Year Ending September 30	Principal	Interest	Total
2004	\$ 10,225	25,951	36,176
2005	10,685	25,491	36,176
2006	11,190	24,984	36,174
2007	11,720	24,452	36,172
2008	12,310	23,866	36,176
2009 - 2013	71,770	109,104	180,874
2014 - 2018	92,640	88,229	180,869
2019 - 2023	118,830	62,036	180,866
2024 - 2028	150,555	30,320	180,875
2029-	34,535	1,640	36,175
Sub-total	\$ 524,460	416,073	940,533
Less: Unamortized Discount	(5,831)	-	(5,831)
Total	518,629	416,073	934,702

Housing Finance Agency

Bonds payable consists of term and serial bonds which are subject to redemption at the option of the Housing Finance Agency in accordance with the terms of the respective bond indenture and bond resolution, in whole or in part, on various dates at prescribed redemption prices. Included in certain bond issues are capital appreciation bonds. The principal amount of these bonds appreciates either annually or semi-annually, compounding on the original principal balance. These bonds are recorded in the financial statements at their current appreciated amounts.

Bonds have been issued to provide financing for the Housing Finance Agency's housing programs and are collateralized by: (a) mortgage loans made on the related developments or single-family residential mortgage loans purchased, (b) substantially all revenues, mortgage payments, and recovery payments received by the agency from mortgage loans made on related developments or (c) certain accounts, generally debt service reserve funds, established pursuant to the indenture authorizing issuance of the bonds.

A summary of Housing Finance Agency's debt service requirements to maturity for principal and interest is shown in **Table 21**.

NOTE 7. LONG-TERM LIABILITIES**Table 21 - Housing Finance Agency Debt Service Requirements to Maturity**

Year Ending September 30	Principal	Interest	Total
2004	\$ 11,710	43,705	55,415
2005	8,650	43,010	51,660
2006	2,465	42,888	45,353
2007	2,360	42,770	45,130
2008	5,135	42,575	47,710
2009-2013	30,280	208,319	238,599
2014-2018	11,172	201,701	212,873
2019-2023	76,405	190,031	266,436
2024-2028	156,980	152,708	309,688
2029-2033	142,938	109,936	252,874
2034-2038	119,504	68,630	188,134
2039-2043	110,204	46,299	156,503
2044-2048	54,650	16,493	71,143
2049-2053	-	10,307	10,307
2054-2058	184,055	2,405	186,460
Subtotal	<u>916,508</u>	<u>1,221,777</u>	<u>2,138,285</u>
Unamortized Bond Premium, net	3,865	-	3,865
Total	<u><u>\$ 920,373</u></u>	<u><u>1,221,777</u></u>	<u><u>2,142,150</u></u>

B. OTHER LONG-TERM LIABILITIES

A summary of changes in other long-term liabilities for governmental activities is shown in **Table 22**.

Table 22 - Changes in Other Long-Term Liabilities

Account	Balance October 1, 2002	Additions	Deductions	Balance September 30, 2003
Governmental Activities:				
Accrued disability compensation (Note 13)	\$ 231,883	64,738	(35,850)	260,771
Accumulated annual leave	96,008	6,563	-	102,571
COP public safety center	-	71,455	-	71,455
Grant disallowances	56,940	10,396	-	67,336
Claims & judgments	28,969	40,753	(18,693)	51,029
Equipment financing program	55,463	17,094	(15,801)	56,756
Accreted interest	16,870	2,745	-	19,615
Capital leases payable (Note 12)	101,594	8,741	(19,877)	90,458
Total	<u><u>\$ 587,727</u></u>	<u><u>222,485</u></u>	<u><u>(90,221)</u></u>	<u><u>719,991</u></u>

NOTE 7. LONG TERM LIABILITIES**C. CURRENT PORTION OF LONG-TERM LIABILITIES**

Table 23 presents the current and long portions of long-term liabilities.

Table 23 – Current & Long Portion of Long-Term Liabilities

Type of Liability	Current Portion		Long-Term Portion		Total	
	Principal		Principal		Principal	
General Obligation Bonds	\$	146,505	\$	3,104,613	\$	3,251,118
TIF Bonds and Notes		-		125,524		125,524
QZAB		255		3,072		3,327
Capital Leases		3,950		86,508		90,458
Tobacco Bonds		3,810		502,740		506,550
Annual leave		65,529		37,042		102,571
Disability compensation		-		260,771		260,771
Equipment financing program		20,629		36,127		56,756
Accreted interest		-		19,615		19,615
Claims and judgements		-		51,029		51,029
Grant disallowances		-		67,336		67,336
COP		-		71,455		71,455
Total Governmental Funds	\$	240,678	\$	4,365,832	\$	4,606,510

NOTE 8. RETIREMENT PROGRAMS**A. DEFINED BENEFIT PENSION PLANS**

District full-time employees receive pension benefits either through the federally administered Civil Service Retirement System or the District's Retirement Programs and the Social Security System.

Plan Descriptions**Civil Service Retirement and Social Security Systems**

The Civil Service Retirement System (5 U.S.C. 8331), a cost sharing multiple employer public employee retirement system, covers permanent full-time employees hired before October 1, 1987 (except those covered by the District Retirement Program).

The Balanced Budget Act of 1997 (P. L. 105-33)

mandated an increase in the District's contribution for most Civil Service covered employees from 7% to 8.51% (9.01% for law enforcement officers and firefighters.) This increase became effective for the first pay period ended on or after October 1, 1997. The contribution rate will revert to 7.5% in October 2002, and then back to 7% in January 2003. The employee contribution rate for Civil Service covered employees changed to 7.0% on January 2001.

District contributions to the pension plans administered by the federal government, for the years ended September 30, 2003, 2002, and 2001, were as shown in **Table 24**. These financial statements are available from the U.S. Office of Personnel Management at www.opm.gov.

NOTE 8. RETIREMENT PROGRAMS**Table 24 - Summary of District Contributions to Federally Administered Pension Plans**

Plan	Rate	Employees		2003	2002	2001
Civil Service	8.51%	7,124	\$	23,637	25,855	27,309
Social Security	7.65%	11,434		<u>52,000</u>	<u>51,338</u>	<u>48,307</u>
Total			\$	<u>75,637</u>	<u>77,193</u>	<u>75,616</u>
Total Payroll			\$	<u>1,565,725</u>	<u>1,585,193</u>	<u>1,198,182</u>

The District has no further liability to the plans.

District Retirement Programs

The Retirement Board administers the District's Retirement Programs (D.C. Code 4-601, 11-1561, 31-120), which are single employer defined benefit pension plans, one established for police and firefighters and the other for teachers.

Each of the two plans provides retirement, death and disability benefits, and annual cost of living adjustments to plan members and beneficiaries. Each pension trust fund issues a publicly available financial report that includes financial statements and required supplementary information. These reports can be obtained from the District of Columbia Retirement Board, Executive Director, 1400 L Street, N. W., Suite 300, Washington, D. C. 20005.

Funding Policy

The Retirement Board establishes, for each pension trust fund, the contribution requirements of plan members and the District government. The Retirement Board, when deemed necessary, may amend these requirements. A summary of the actuarial assumptions is shown in **Table 25**.

Members contribute by salary deductions on the basis of a normal rate of contributions, which is assigned by the Fund at membership. Members contribute 7% (or 8% for teachers hired on or after November 16, 1996) of annual pay minus any pay received for summer school. Members may also contribute up to 10% of annual pay toward an annuity in addition to any vested pension.

The District is required to contribute the remaining amounts necessary to finance the coverage of its employees through periodic contributions at actuarially determined amounts in accordance with the provisions of the Replacement Act. The District contributions for fiscal

year 2003, 2002 and 2001 were equal to the Fund's independent actuary's recommendation.

Under P. L. 105-33, the federal government makes annual contributions to the Police and Firefighters' Plan and to the Teachers' plan on behalf of District employees and retirees. These on-behalf payments totaled \$269,200 for the year ended September 30, 2003 and have been reported as intergovernmental revenue. Related expenditures of \$212,668 and \$56,532 have been reported in the public safety and justice and the public education systems functions, respectively.

NOTE 8. RETIREMENT PROGRAMS

Table 25 - Actuarial Assumptions

	<u>Police and Fire</u>	<u>Teachers</u>
Contribution rates plan members	7% - 8%	7% - 8%
Actuarial valuation date	10/01/02	10/01/02
Actuarial cost method	Aggregate	Aggregate
Asset valuation method	Market value	Market value
Actuarial assumptions:		
Investment rate of return	7.25%	7.25%
Projected salary increases	5.5% - 8.8%	5.3% - 8.8%
Inflation rate	5%	5%
Cost of living adjustments	5%	5%

*The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities.

Actuarially Required Contributions

The District made its actuarially required contribution of \$68.9 million to the Police and Firefighters' Plan during the year ended September 30, 2003.

B. DEFINED CONTRIBUTION PENSION PLANS

District of Columbia

Under the provisions of D. C. Code 1-627, the District sponsors a defined contribution pension plan with a qualified trust under Internal Revenue Code section 401(a) for permanent full-time employees covered under the Social Security System. Employees do not contribute to the plan and are eligible to participate after one year of service. The District contributes 5% of base salaries for eligible employees each pay period. This contribution rate is 5.5% of base salaries for detention officers. Contributions and earnings vest fully after four years of service following a one-year waiting period. Contributions and earnings are forfeited if separation occurs before five years of credited service. These contributions are not considered assets of the District, and the District has no further liability to this plan. For the fiscal year ended September 30, 2003, District contributions to the plan were \$21,000. This plan also covers employees of the Sports Commission, D. C. Housing Authority and Water and Sewer Authority, while the employees of the Housing Finance Agency,

Washington Convention Center and the University are covered under their own separate defined contribution plans.

C. DEFERRED COMPENSATION PLANS

Internal Revenue Code Section 403 Plan

The District sponsors an annuity purchase plan (D. C. Code 31-1252) with insurance companies and other issuers in accordance with IRC Section 403 for public teachers covered by the District Retirement Program. The District does not contribute to this plan and has no liability to the plan. Under this annuity purchase plan, eligible employees were able to defer up to \$12,000 of their annual compensation for calendar year 2003. Employees with more than fifteen years of service may defer up to \$15,000 for the calendar year 2003. Also an additional deferral of \$2,000 was available to participants who were at least 50 years old before the end of the calendar year. Contributions vest immediately and are not assets of the District.

Internal Revenue Code Section 457 Plan

The District offers its employees a deferred compensation plan (D. C. Code 47-3601) created in accordance with Internal Revenue Code Section 457. Employees, including teachers, were able to defer the lesser of \$12,000 or 100% of includible compensation in calendar

NOTE 8. RETIREMENT PROGRAMS

year 2003. Also an additional deferral of \$2,000 was available to participants who were at least 50 years old before the end of the calendar year. Compensation deferred and income earned are taxable when paid or

made available to the participant or beneficiary upon retirement, death, termination, or unforeseeable emergency. Contributions are not assets of the District, which has no further liability to the plan.

NOTE 9. FUND BALANCE RESERVATIONS/DESIGNATIONS

Reserved and designated fund balances at September 30, 2003 are shown in Table 26.

Table 26 - Schedule of FY 2003 Reserved and Designated Fund Balances

	General Fund	Federal & Private Resources	General Capital Improvements	Nonmajor Governmental Funds	Unemployment Compensation Fund	Nonmajor Proprietary Fund	Fiduciary Funds
Reserved							
Long term assets	\$ 1,976	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Emergency reserve	253,800	-	-	-	-	-	-
Bond escrow	213,217	-	-	-	-	-	-
Inventory	13,179	1,079	-	-	-	-	-
Budget	49,321	-	-	-	-	-	-
Purpose restrictions	25,950	149,141	4,199	-	-	-	-
Charter school loan	10,000	-	-	-	-	-	-
Joint venture capital subsidies	-	-	23,284	-	-	-	-
Workers' compensation	800	-	-	-	-	-	-
Tobacco settlement	-	-	-	58,231	-	-	-
Tax increment financing	-	-	-	12,073	-	-	-
Future benefits	-	-	-	-	262,148	-	2,233,975
Highway projects	-	-	-	25,124	-	-	-
Total Reserved Fund Balances	\$ 568,243	\$ 150,220	\$ 27,483	\$ 95,428	\$ 262,148	\$ -	\$ 2,233,975
Unreserved							
Designated:							
Post employment benefits	25,593	-	-	-	-	-	-
Grant disallowances	67,337	-	-	-	-	-	-
Other purpose restrictions	152,033	-	-	-	-	-	-
Undesignated	84,151	-	(169,287)	-	-	35,234	-
Total Unreserved Fund Balances	\$ 329,114	\$ -	\$ (169,287)	\$ -	\$ -	\$ 35,234	\$ -
Total Fund Balances	\$ 897,357	\$ 150,220	\$ (141,804)	\$ 95,428	\$ 262,148	\$ 35,234	\$ 2,233,975

The general capital improvements fund has a negative fund balance of \$(141,804) at September 30, 2003, which will be eliminated by additional operating transfers from the general fund during fiscal year 2004.

NOTE 10. JOINT VENTURE**Washington Metropolitan Area Transit Authority**

The Washington Metropolitan Area Transit Authority (WMATA) was created by Interstate Compact by and between Maryland, Virginia and the District of Columbia, pursuant to Public Law 89-774. The District's commitment or obligation to provide financial assistance to WMATA is established by annual appropriations, as approved by Congress. The District supports the Transit Authority through operating and capital grants. The District places the amounts to be provided to WMATA in an escrow account until such time when the funds are

drawn down for use by WMATA. Operating grants may be in the form of operating and interest subsidies. WMATA records the District's operating grants as advanced contributions when received and as nonoperating revenues when the related expenses are incurred. WMATA recognizes the District's capital grants as additions to construction in progress and investment in capital assets when the grant resources are expended for capital acquisitions. A summary of the grants provided to WMATA during the year ended September 30, 2003 is shown in **Table 27**.

Table 27 - Summary of Grants Provided to WMATA

Account	Amount
Operating grants	\$ 144,200
Debt service grants	10,331
Capital grants (less escrow balance)	62,902
Total	\$ 217,433

The WMATA issues separate audited financial statements that can be requested from the Washington Metropolitan Area Transit Authority, General Manager, 600 5th Street, NW, Washington, D. C. 20001.

NOTE 11. TRANSACTIONS WITH THE FEDERAL GOVERNMENT**A. FEDERAL CONTRIBUTION**

In accordance with the National Capital Revitalization and Self-Government Improvement Act of 1997 (Public Law 105-33), the annual federal payment in lieu of taxes was repealed and replaced with a Federal contribution to cover special purpose and other unusual costs imposed on the District by the Federal government. Federal contributions to the District for the year ended September 30, 2003 totaled \$363,061.

B. EMERGENCY PREPAREDNESS

The District, as the nation's capital, serves as the command post and the source of first response to any national threat or terrorist act against the nation. The District did not receive any federal payment for emergency preparedness in fiscal year 2003. In prior years, these funds were made available to assist the District to prepare itself and its citizens to more effectively respond to any threat or possible terrorist attack. The total payment of \$155,900 received in fiscal year 2002 was utilized for the specific purposes and expended by September 30, 2003.

C. GRANTS

The District participates in a number of federal award programs, which are funded through formula and project grants, direct payments for specified and unrestricted use, food stamps and other pass-through grants and direct and guaranteed loans.

The federal government also provides capital grants, which are used for the purchase or construction of fixed assets. Capital grants, except for those associated with water and sewer facilities, are recorded as intergovernmental revenue in the General Capital Improvements Fund. Federal grants and contributions are shown by function on the government-wide financial statements.

D. WATER AND SEWER SERVICES

The District exercises no oversight responsibility over the Washington Aqueduct, which is owned by the Federal government and operated by the U. S. Army Corps of Engineers. Historically, the District issued long-term debt to finance most of the Aqueduct's capital facilities and the Water and Sewer Authority recorded this debt and related capital costs in its financial statements. In 1997, the Water and Sewer Authority and the other Northern

NOTE 11. TRANSACTIONS WITH THE FEDERAL GOVERNMENT

Virginia customers entered into an agreement with the federal government, which provides for the funding of the Washington Aqueduct's capital improvement program directly through borrowings. The Water and Sewer Authority is now responsible for funding only its portion of this debt, other related capital projects, and operating costs calculated as its pro rata share of water purchased. The Water and Sewer Authority records payments for capital costs related to the Washington Aqueduct as purchased capacity. Such costs, which are allocable to other jurisdictions, but funded by the Water and Sewer

Authority prior to April 1, 1999 are reported as due from other jurisdictions.

Capital outlays are capitalized and depreciated over 60-years by the Water and Sewer Authority. Total capital outlays including capitalized interest from the U.S. Treasury draw-downs and pay-as-you-go financing were \$6,825 for the fiscal year ended September 30, 2003.

NOTE 12. LEASES**A. CAPITAL LEASES**

The District leases buildings and equipment under various agreements that are accounted for as capital leases that have varying terms. Capital lease commitments are recorded in the government-wide financial statements.

Capital lease payments are classified as current expenditures in the governmental funds. Such expenditures totaled \$6,561 in 2003.

Equipment Financing Program

The District began its Master Equipment Lease Purchase Program. (the "Program") in 1998 to provide tax exempt financing for projects with short-term to intermediate-term useful lives. The Program enables the District to improve its asset/liability management by matching the useful life of the asset being financed to the amortization of the liability (5 to 10 years).

As of September 30, 2003, the District had financed approximately \$92.0 million of its capital equipment

needs through the Program, and had approximately \$56.7 million in principal outstanding. During the year, the average interest rate used to finance equipment through the Program was 3.565%, with payments being made on a quarterly basis.

Equipment procured under this program include such items as fire apparatus (trucks) and other emergency medical services equipment (ambulances); trucks and cranes used by the Department of Public Works; vehicles used by the Metropolitan Police Department; and other heavy equipment items.

Lease payment obligations are not debt nor are they general obligations of the District, but are payable from local appropriations. Each schedule under the Program sets forth the principal and interest components of each rental payment payable during the lease term.

Table 28 shows the schedule of equipment financing program payments.

Table 28 – Schedule of Equipment Financing Program Payments

Year Ending September 30	Principal	Interest	Total
2004	18,356	2,272	20,628
2005	15,297	1,419	16,716
2006	14,833	745	15,578
2007	6,421	199	6,620
2008	1,849	24	1,873
Total	\$ 56,756	4,659	61,415

NOTE 12. LEASES**B. OPERATING LEASES**

Operating leases are not recorded in the statement of net assets. These leases contain various renewal options, the effects of which are reflected in the minimum lease payments only if it is considered that the option will be exercised. Certain other operating leases contain escalation clauses and contingent rentals that are not included in the calculation of the future minimum lease payments. Operating lease expenditures recorded in governmental funds were \$105,316 in 2003.

C. SCHEDULES OF FUTURE MINIMUM LEASE COMMITMENTS

The present value of future minimum lease payments under capital leases and minimum lease payments for all operating leases having non-cancelable terms in excess of one year at September 30, 2003 are shown in **Table 29**.

Table 29 - Schedule of Future Minimum Lease Payments

Year Ending September 30	Primary Government			Component Units	
	Capital Leases	Operating Leases		Operating Leases	
		Facilities	Equipment	Facilities	Equipment
2004	\$ 8,791	\$ 72,911	\$ 6,473	\$ -	\$ 1,450
2005	12,512	74,787	1,781	-	1,450
2006	12,489	77,757	710	-	1,450
2007	12,436	81,428	177	-	1,450
2008	10,715	72,290	-	-	1,450
2009-2013	53,572	106,296	-	-	7,250
2014-2018	11,547	-	-	-	7,250
2019-2023	-	-	-	-	4,465
Minimum lease payments	122,062	\$ 485,469	\$ 9,141	\$ -	\$ 26,215
Less - imputed interest	31,604				
Present value of payments	\$ 90,458				

NOTE 13. COMMITMENTS AND CONTINGENCIES**A. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District pays all claim settlements and judgments out of its General Fund resources and reports all of its risk management activities as governmental activities in the government-wide financial statements. Claims expenditures and liabilities are reported in the government-wide financial statements when it is probable that loss has occurred and the amount of that loss can be reasonably estimated and in the General Fund when due and payable. These losses include an estimate of claims that have been incurred but not reported.

B. GRANTS AND CONTRACTS

The District has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from an audit may become a liability of the District. The audits of these federally assisted programs have not been conducted for the year ended September 30, 2003. As such, the District's compliance with applicable grant and federal requirements will be assessed and established at some future date. An accrual of \$67,336 in the government-wide financial statements has been provided

NOTE 13. COMMITMENTS AND CONTINGENCIES

which estimates the probable cumulative expenditures that may be disallowed by the granting agencies based on prior experience.

C. LITIGATION

The District is named as a party in legal proceedings and investigations that occur in the normal course of governmental operations. Although the ultimate outcome of these legal proceedings and investigations is unknown, the District is vigorously defending its position in each case. All amounts in connection with lawsuits in which a loss is probable have been included in the provision for claims and judgments at September 30, 2003.

The accrued liability is based on estimates of the payments that will be made upon judgment or resolution of the claim. This accrued amount is the minimum amount in the range of estimates that have the same probability of occurrence. The sum of excess of the range of probable losses and the minimum range of losses that are reasonably possible which are not accrued is estimated to be \$125,500.

Summary of the changes in the accrued liability for claims and judgments in the government-wide financial statements is shown in **Table 30**.

Table 30 - Summary of Changes in Claims and Judgments Accrual

Description	2003	2002
Liability at October 1	\$ 28,969	\$ 86,890
Incurring claims	40,753	7,959
Less:		
claims payments/adjustments	(18,693)	(65,880)
Liability at September 30	\$ 51,029	\$ 28,969

D. DISABILITY COMPENSATION

The District, through its risk management department, administers a disability compensation program under Title XXIII of the District of Columbia Comprehensive Merit Personnel Act of 1978 (CMPA). This program, which covers all District employees hired under the authority of CMPA, provides compensation for lost wages, medical expenses, and other limited rehabilitation expenses to eligible employees and/or their dependents, where a work-related injury or illness results in disability or death. The benefits are funded on a pay-as-you-go basis. The present value at 6.3% of projected disability

compensation is accrued in the government-wide financial statements.

A summary of changes in this accrual is shown in **Table 31**.

Table 31 – Summary of Changes in Disability Compensation Accrual

Description	2003	2002
Liability at October 1	\$ 231,883	\$ 200,531
Claims incurred	64,738	64,179
Less-benefit payments	(35,850)	(32,827)
Liability at September 30	\$ 260,771	\$ 231,883

E. INTEREST RATE SWAP AGREEMENTS

Part of the District's debt strategy is to have a mixture of fixed-rate and variable-rate debt to take advantage of market fluctuations. The District's strategy is to have a mixture of fixed- and variable-rate debt to take advantage of market fluctuations. Because the District anticipates that interest rates might decline, it decides to synthetically create variable-rate debt by entering into a derivative.

Terms**2002D Swap**

On October 31, 2002, the District entered into a floating-to-fixed rate swap in connection with its \$124,995 Multimodal General Obligation Refunding Bonds, Series 2002D ("2002D Swap"). The original notional amount of the swap is \$124,995. Under the terms of the swap, entered into in 2002 and scheduled to terminate in 2031, the District pays a fixed-rate of 3.617% and receives variable rate payments equivalent to the Bond Market Association Municipal Swap Index (BMA) until December 1, 2004 and at 67% of LIBOR thereafter. The notional value of the swap and the principal amount of the associated debt service begins to decline in fiscal year 2015.

2002 B Swaps

On October 15, 2002, the District entered into a floating-to-fixed rate swap in connection with its \$224,300 Multimodal General Obligation Bonds, Series 2002B ("2002B Swap"). The original notional amount of the swap was \$224,300. Under the terms of the swap, entered into in 2002 and scheduled to terminate in 2027, the

NOTE 13. COMMITMENTS AND CONTINGENCIES

District pays a fixed-rate of 3.615% and receives variable rate payments equivalent to BMA until December 1, 2004 and at 67% of LIBOR thereafter. The notional value of the swap and the principal amount of the associated debt service begins to decline in fiscal year 2020.

2001C/D Swap

On December 6, 2001, the District entered into a floating-to-fixed rate swap in connection with its \$214,155 Multimodal General Obligation Bonds, Series 2001C and its \$69,715 Multimodal General Obligation Refunding Bonds, Series 2001D ("2001C/D Swap"). The original notional amount of the swap was \$283,870. Two firms, Bear, Stearns & Co. Inc. ("Bear Stearns") and UBS PaineWebber, Inc. ("UBS PaineWebber"), negotiated the split of this swap transaction. As a result, Bear Stearns and UBS PaineWebber received 62.5% and 37.5% of the notional amount of the swap, respectively. Under the terms of the swap, entered into in 2001 and scheduled to terminate in 2029, the District pays a fixed-rate of 4.004% and receives variable rate payments equivalent to BMA until June 2, 2003 and at 67% of LIBOR thereafter. The notional value of the swap and the principal amount of the associated debt service begins to decline in fiscal year 2003.

On June 2, 2003, the District entered into an enhanced interest rate swap agreement for the 2001C/D Bond issue ("2001C/D Enhanced Swap"). Based on the 2001 Enhanced Swap agreement, the District and the counterparty pay one another interest based on a variable rate index. Only the net difference in interest payments is actually exchanged between the counterparties.

1992A/2001A Swap

On March 26, 1992, the District entered into a floating-to-fixed rate swap in connection with its \$299,800 General Obligation Variable Rate Refunding Bonds, Series 1992A ("1992A/2001A Swap"). The 1992A Bonds were refunded by the District's \$114,150 Multimodal General Obligation Refunding Bonds, Series 2001A. The original notional amount of the swap was \$299,800. Under the terms of the swap, entered into in 1992 and scheduled to terminate in 2007, the District pays a fixed-rate of 6.02% and receives variable rate payments equivalent to the J.J. Kenny Index. The notional value of the swap and the principal amount of the associated debt service began to decline in fiscal year 1992.

Fair Market Value

As of September 30, 2003, the 2002D, 2002B, 2001C/D and 1992A/2001A Swaps ("Swaps") had fair market

values as shown in **Table 32**:

Table 32 – Swaps Fair Market Values

Swaps Fair Market Values	
2002D Swap	(4,350)
2002B Swap	(7,939)
2001C/D (Enhanced Swap)	(3,382)
2001C/D (Bear Stearns)	(17,181)
2001C/D (UBS PaineWebber)	(10,309)
2001A	(4,171)
Total	(47,332)

The market value was provided by the counterparty to each respective swap and confirmed by Phoenix Capital Advisors.

Credit Risk.

The swaps' fair market value represents the District's obligation to the counterparties if the swaps were terminated. As of September 30, 2003, the District is not exposed to any credit risk because the swaps have a negative fair value. Should the counterparty to these transactions fail to perform according to the terms of the swaps' contracts, the District face a maximum possible loss equivalent to the swaps' fair market value (\$47,332 in aggregate). As of September 30, 2003, Standard & Poor's and Moody's rated the counterparty to each swap as follows:

Swap	Counterparty	Credit Rating
2002D	Lehman Brothers	A/A2
2002B	Morgan Stanley	A+/Aa3
2001C/D	Bear Stearns	AAA/Aaa (Insured)
2001C/D	UBS PaineWebber	AAA/Aaa (Insured)
2001C/D	Bear Stearns	AA+/Aa2
2001A	Merrill Lynch	A+/Aa3

Basis Risk

District is subject to basis risk if the variable payment received from the counterparty does not equal the rate on the bonds.

Termination Risk

The District or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap uses the International Swap Dealers Association Master Agreement, which includes standard

NOTE 13. COMMITMENTS AND CONTINGENCIES

termination events. The Schedule to the Master Agreement defines an “additional termination event.” That is, the swap may be terminated if the counterparty or its Credit Support Provider, or the District has one or more outstanding issues of rated unsecured, unenhanced senior debt and none of such issues has a rating of at least (i) Baa3 or higher as determined by Moody’s Investors Service, Inc., (ii) BBB- or higher as determined by Standard & Poor’s Ratings Service, A Division of the McGraw-Hill Companies, Inc. or (iii) an equivalent investment grade rating determined by a nationally-

recognized rating service acceptable to both parties.

Swap Payments and Associated Debt

Using interest rates as of September 30, 2003, principal and interest requirements of the fixed-rate debt and net swap payments are shown in **Table 33**. As rates vary, net swap payments will vary. As the principal on the variable rate bonds mature, the swaps’ notional amount likewise diminishes, or amortizes as well.

Table 33 – Swaps Interest Requirements

Governmental Activities					
Primary Government Year Ending September 30	General Obligation		Interest Rate Swaps, Net	Total	
	Principal	Interest			
2004	\$ 146,505	\$ 161,661	\$ 9,785	\$ 317,951	
2005	166,020	153,140	18,804	337,964	
2006	174,185	143,991	17,712	335,888	
2007	180,865	134,737	17,059	332,661	
2008	190,615	124,798	16,570	331,983	
2009 - 2013	866,813	511,765	78,181	1,456,759	
2014 - 2018	479,990	312,290	69,021	861,301	
2019 - 2023	503,700	185,571	51,793	741,064	
2024 - 2028	498,555	64,009	18,254	580,818	
2029 - 2034	43,870	2,359	725	46,954	
Total	\$ 3,251,118	\$ 1,794,321	\$ 297,904	\$ 5,343,343	

F. DEBT SERVICE DEPOSIT AGREEMENTS

The District entered into debt service deposit agreements effective through 2014 that exchanged future cash flows of certain special tax fund escrow accounts for a fixed amount received by the District upon entering into the agreements, thus increasing the predictability of cash flows from the earnings on escrow account investments. Upon early termination of an agreement and depending upon the then current interest rates, a termination amount may be owed by the District. At September 30, 2003, deferred revenue of \$7,104 related to this agreement is recorded in the government-wide financial statements.

NOTE. 14 SUBSEQUENT EVENTS**A. ISSUANCE OF BONDS, NOTES AND OTHER OBLIGATIONS**

On December 11, 2003, the District issued its Series 2003B General Obligation Bonds in the aggregate principal amount of \$173,995 (the "2003B Bonds"). The proceeds of these bonds will be used to finance a portion of the District's fiscal year 2004 capital improvements program and pay the swap termination fee (as described herein). In connection with the issuance of the 2003B Bonds, the District on October 9, 2003, entered into an interest rate hedge agreement in the notional amount of \$175,000, with an interest rate of 4.263%. The District terminated such agreement on December 3, 2003, and upon such termination paid a termination fee of \$4,750. Also, on December 11, 2003, the District issued its Series 2003C and 2003D Multimodal General Obligation Bonds in the aggregate principal amount of \$140,325 (the "2003C Bonds" and "2003D Bonds," respectively). The proceeds of these bonds are being used to finance a portion of the District's fiscal year 2004 capital improvements program. The 2003B, 2003C and 2003D Bonds, together with other outstanding general obligation bonds and bonds to be issued in the future, are general obligations of the District, secured by the District's full faith and credit and further secured by the Special Real Property Tax, and are issued under Section 461 of the Home Rule Act. The Series 2003C and 2003D Bonds bear interest at variable rates from the date of issue until maturity, unless converted to a fixed rate. The Series 2003B Bonds were issued as fixed-rate bonds. The final maturities of the 2003B, 2003C and 2003D Bonds are June 1, 2021, 2028, and 2026, respectively.

On December 2, 2003, the District issued Fiscal Year 2004 General Obligation Tax Revenue Anticipation Notes in the aggregate principal amount of \$250,000 (the "Notes"). The proceeds of these notes were issued to finance general governmental expenses of the District in anticipation of the collection or receipt of revenues for fiscal year 2004. The notes are general obligations of the District, secured by the District's full faith and credit, and payable from available revenues, including tax revenues, of the District. The Notes were issued as fixed-rate notes, and mature on September 30, 2004.

B. HOUSING FINANCE AGENCY

On December 24, 2003 the Agency issued Single Family Draw-Down bonds Series 2003 for \$230.85 million and concurrently redeemed Single Family Draw-Down bonds Series 2002 for \$221.84 million.